

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF
GTE SOUTH INCORPORATED

) CASE NO. 10117

ORDER ON REHEARING

On September 1, 1988, the Commission entered its Order in this matter granting GTE South Incorporated ("GTE South") an increase in intrastate revenues of \$7,947,185. In this Order, the Commission is granting GTE South an additional increase in intrastate revenues of \$614,564. This represents an additional increase in revenue of approximately .4 percent on an annual basis and an overall increase in this rate proceeding of approximately 5.6 percent.

PROCEDURAL BACKGROUND

GTE South and the Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division, jointly with Lexington-Fayette Urban County Government ("AG-LFUCG") filed petitions for rehearing on September 21, 1988. GTE South sought rehearing on eight issues and the AG-LFUCG petitioned for rehearing on two issues. In its Order of October 11, 1988, the Commission granted rehearing on five of GTE South's requests for rehearing and both of the AG-LFUCG's requests for rehearing.

GTE South and the AG-LFUCG filed rehearing testimony on October 28, 1988. The Commission issued a data request by Order dated November 21, 1988; the data request was later modified by Order entered November 30, 1988.

On December 5, 1988, GTE South filed a motion to strike certain questions of the Commission's data request asserting the questions were beyond the scope of the issues on rehearing. On December 8, 1988, the Commission heard oral arguments on the motion to strike. On December 20, 1988, the Commission entered an Order holding the issue of the scope of the issues on rehearing and the motion to strike in abeyance pending the completion of the rehearing process. The Commission has reviewed GTE South's motion concerning the proper scope of the rehearing issues, specifically the central office equipment maintenance, the access revenues, and the toll revenues. The decisions contained in this Order reflect the Commission's view of the appropriate scope of rehearing.

GTE South sponsored prefiled rehearing testimony by the following witnesses:

Jerry L. Austin, Treasurer;

Vicky L. Nash, Operations Support Manager -
Customer Service;

Norman L. Farmer, Director-Revenue Programs
and Industry Affairs; and

Alfred C. Giammarino, Controller.

The AG-LFUCG sponsored prefiled supplemental direct testimony by Thomas C. DeWard, CPA, Senior Regulatory Analyst with Larkin and Associates, CPA's.

The Commission conducted a hearing on January 23 and 24, 1989. Each of the above witnesses was made available for cross-examination. Briefs were filed on February 21, 1989.

On March 9, 1989, GTE South and American Telephone and Telegraph of the South Central States ("AT&T") filed a joint motion on the issue of access revenues.

ANALYSIS & DETERMINATION

COE Maintenance Expense

In the October 11, 1988 Order in this case, the Commission reduced GTE South's test-period Central Office Equipment ("COE") maintenance expenses by \$607,159. The Commission accepted the adjustment proposed by the AG-LFUCG based upon GTE South's statement that the increase in the COE maintenance expenses was the result of digital switch conversions.¹ However, in its rebuttal testimony, GTE South presented figures attempting to clarify its previous statement and refute the AG-LFUCG's argument that the increase in COE maintenance expense was the result of non-recurring conversion activity. GTE South contends that for the years 1984 through 1987, COE maintenance expense remained relatively constant and, on an inflation adjusted basis, actually realized a \$1.3 million savings as a result of GTE South's digital office conversion program.² Upon further cross-examination about the cost savings resulting from the conversion from analog to digital technology, GTE South's witness responded, "Yes,

¹ Case No. 10117, Order dated September 1, 1988, page 59.

² Transcript, Volume 1, January 23, 1989, page 29.

absolutely . . . there are savings . . ."³ In addition, the witness continued by comparing the COE maintenance cost per access line of the older technology to the similar cost of the newer technology and the resulting savings.

On rehearing, GTE South provided the COE maintenance expense totals for the 12 months following the test period. In Giammarino Rehearing Schedule 1, 10 months (November 1986 to August 1987) of test-period COE maintenance expense accounts were compared with the same 10 months following the test period. The schedule reflected a less than 1 percent decrease in the expenses for the 10 months following the test period. However, when the months of September and October are added to Giammarino Rehearing Schedule 1, the 12-month period following the test period shows an approximate 6.7 percent decrease from the test-period level of expense.⁴

During cross-examination, GTE South's witness stated that the month of September 1988 was abnormally low because it reflected a significant decrease due to problems with the clearing process and payroll accrual.⁵ However, when the 12 months following the test period are taken as a whole and the abnormality lessened due to a longer period of review, there is a significant decrease from the test-period level. Even GTE South's attempt in its brief⁶ to show

³ Ibid., page 37

⁴ Response to January 23, 1989 Rehearing Request, Item 1.

⁵ Transcript, Volume 1, January 23, 1989, page 34.

⁶ Rehearing Brief of GTE South, page 4.

that COE maintenance expense for the last 3 months of 1988 has returned to the higher test-period levels is not persuasive. It should be noted that the last 3 months of 1988 as set out in the brief reflect a decrease of 7.2 percent when compared with the last 3 months of 1987.⁷ Therefore, based on the evidence presented on rehearing, the Commission is of the opinion that the adjustment to COE maintenance expense is valid and that its September 1, 1988 decision should be affirmed.

Depreciation Expense

The AG-LFUCG, in its petition for rehearing, contended that GTE South's test-period depreciation expense was overstated due to the booking of depreciation expense on plant under construction. GTE South acknowledged that in March 1988 an entry was made to correct depreciation expense taken on plant under construction prior to and during the test period.⁸ In its rehearing testimony, GTE South further acknowledged this to be a correction covering the period 1985 through 1987.

Since this correction is applicable to the test period, the Commission concurs with the AG-LFUCG and has thus reduced GTE South's revenue requirement by \$189,681. This revenue requirement is comprised of a \$292,167 reduction in depreciation expense and an increase of \$102,486⁹ to reflect the revenue requirement

⁷ $[(\$8,814,428 - \$8,179,160)/\$8,814,428] \times 100\% = 7.2\%$.

⁸ Response to June 8, 1988 Hearing Request, Item 7.

⁹ $(\$581,000 \times 0.1077\%) + .610558 = \$102,486$.

related to the understatement of net investment rate base and capitalization.

Toll Revenue

In its petition for rehearing, the AG-LFUCG requested the Commission to reconsider the denial of its proposed increase to toll revenues based on annualization of toll revenues for the last 2 months of the test period and the 3 months following the test period.¹⁰ The AG-LFUCG contended that the record was clear that toll revenues had increased during the test period and that the revenues continued to increase following the test period. GTE South argued throughout the case that any change to toll revenue would require recognition of the corresponding changes to toll expenses and toll investment. In its Order granting rehearing, the Commission granted rehearing on appropriate going-forward level of toll revenues, and also found that toll expenses and toll investment should likewise be reviewed. Upon further consideration, the Commission again finds that the AG-LFUCG provided no persuasive evidence to alter the Commission's September 1, 1988 decision.

The testimony and exhibits presented by GTE South on rehearing showed toll expenses, both in terms of toll separation factors and actual expense levels, grew substantially between 1986 and 1987. While some of this growth in combined expenses and toll separations factors may have been recognized in other pro forma

¹⁰ In its Rehearing Brief, at page 3, the AG-LFUCG modified its proposal to increase toll revenues based on the annualization of the normalized level for the last 3 months of the test period.

adjustments, the Commission cannot determine absolutely that the annualization of the fourth quarter toll revenues matches the annualized toll separation factors or the separated toll expenses in the same quarter. Annualized combined expenses for the fourth quarter were approximately \$10 million greater than the test period as a whole.¹¹ Although the incremental growth in toll expenses may represent some of this difference, this amount remains undetermined and thus cannot with certainty be matched to the changes in toll revenue.

Moreover, the Commission believes that annualization of expenses (or even revenues) of less than a full test period, in particular 3 months or less, is generally not a reliable estimate of an annual period because of monthly or seasonal fluctuations. While the AG-LFUCG argues that this is the same methodology used to annualize local service revenues, the Commission notes that local service revenue is very stable and not subject to wide monthly fluctuations.

Therefore, the Commission concludes that even with the additional information supplied on rehearing, it cannot determine the appropriate match among toll revenues, toll expenses, and toll investment.

Separations Adjustment

GTE South proposed two adjustments to reflect changes in the Federal Communications Commission's ("FCC") separations procedures, which are used to separate revenues, investments, and

¹¹ Response to Order dated January 15, 1988, Item 18a, page 15.

expenses between the interstate and intrastate jurisdictions. The old procedures were contained in Part 67 of the FCC's Rules and Regulations while the new procedures, which became effective January 1, 1988, are contained in Part 36.

A. COE Category 3. The change in separations procedures for COE Category 3 reflects the removal of distance sensitivity from the allocation factors and, therefore, tends to shift costs from the interstate to the intrastate jurisdiction. GTE South originally calculated this change using projected 1988 investment and separations factors. In the September 1, 1988 Order, the Commission expressed its opinion that any adjustments should be based on data obtained from the end of the test period, which was October 1987. However, the Commission's adjustment reflected projected December 1987 data, because this was the closest time period to the end of the test period for which separations information was available in this proceeding.

In its petition for rehearing, GTE South provided actual December 1987 data and requested this data be used instead of the projected figures. The Commission subsequently requested end-of-test-period data,¹² and in response, GTE South provided average data for July, August, and September 1987. Although the Commission requested end-of-period data, it is recognized that separations studies are normally produced on a quarterly, rather than a monthly basis. Therefore the Commission will accept this data as being representative of end-of-period data and finds that

¹² Commission Order dated December 2, 1988, Item 2.

it would be appropriate to base the adjustment on this data. This results in a shift to intrastate plant investment of \$1,270,778, an increase of \$44,619 over the level in the September 1, 1988 Order. Applying the net book ratio for the same quarter results in an intrastate net investment of \$990,902,¹³ an increase of \$108,883 over the September 1, 1988 Order. Consistent with the September 1, 1988 Order, this change in investment would increase capitalization by \$109,000.

This change in separations procedures also affects the expenses associated with these investments. The September 1, 1988 Order accepted GTE South's proposed adjustment method with respect to depreciation and maintenance expenses, because the separations of these expenses are highly dependent upon the separations of related investments. However, the Order rejected GTE South's adjustment for general and administrative expenses, because these expenses are not directly allocated based on investment allocations. GTE South requested rehearing on this issue on the basis that, although these expenses do not have a direct relationship to the level of plant investment, they do have a relationship to the way plant investment is allocated. In its petition for rehearing, GTE South supported its position by quoting a portion of Section 36.392, FCC Rules and Regulations, which identifies general and administrative expenses as being "apportioned among the operations on the basis of the separation

¹³ $\$1,270,778 \times .77976 - \$990,902.$

of the cost of the combined big three expenses which include ... central office switching expenses." GTE South contended that a "correct application of Part 36 rules requires that these general and administrative expenses also be jurisdictionally separated."

The section quoted from the FCC's Rules and Regulations pertains to Corporate Operations Expense, which is composed of Executive and Planning - Account 6710, and General and Administrative - Account 6720. For separations purposes, the FCC divides these expenses into two categories, "Extended Area Services" and "All Other." It is the "All Other" category which is apportioned among the operations based upon the separation of the cost of the combined "Big Three Expenses," which include Plant Specific Expenses, Plant Non-Specific Expenses, and Customers Operations Expenses. Plant Specific Expenses include Central Office Switching Expenses, Operators Systems Expenses, Central Office Transmission Expenses, Information Origination/Termination Expenses, and Cable and Wire Facilities Expenses. Thus, the Central Office Expense factor is only a portion of the Plant Specific factor, which is only a portion of the combined Big Three Expense factor, which in turn is used to separate only a portion of general and administrative expenses. Although the separations factors for general and administrative expenses are related to the Central Office Expense factor, it can be seen that this relationship is very indirect and that a shift in the Central Office Expense factor will generally not result in a corresponding shift to the other factors used to separate general and administrative expenses. Furthermore, GTE South's method for

calculating any expense change is based on historical relationships between various expense accounts to investments.¹⁴ The general and administrative expenses reflected in this analysis are not identical to the separations categories of general and administrative expenses, which also produce inaccuracies in attempting to measure the impact of separations changes on these expenses. Therefore, the Commission is of the opinion that the impact of separations changes on administrative and general expenses is neither known nor measurable and that the Commission's September 1, 1988 decision is affirmed in this regard.

Applying the expense and depreciation factors to the revised level of gross investment results in a revised pro forma level of intrastate expense of \$74,086 and intrastate depreciation expense of \$47,019. The Commission is of the opinion that its September 1, 1988 Order should be modified to increase the COE category 3 \$23,490.¹⁵

B. COE Category 4.23. As with COE Category 3, this change in separations procedures reflects the elimination of distance sensitivity from the allocation factors. Previously, under Part 67, these investments were allocated based on both usage and mileage. The new Part 36 allocations are based on usage and channel terminations. From January 1988 to April 1989, all channel terminations were considered in the allocation process.

¹⁴ Transcript, Volume 1, January 23, 1989, page 115.

¹⁵ $[(\$109,000 \times 0.1077\%) + (\$4252 \times .61215)] + .610558 = \$23,490.$

The FCC revised this procedure, effective April 1989, to reflect only the end point terminations. The adjustment made in the September 1, 1988 Order reflected the latest revision made by the FCC. On rehearing, GTE South requested a 3-year amortization of the annual intrastate increase to recognize the separations procedures that were in effect from January 1988 to April 1989. As with COE Category 3, GTE South also requested reconsideration on its adjustment for general and administrative expenses. This issue has been addressed in the previous section and is not repeated here.

Also addressed in the previous section, as well as the September 1, 1988 Order in this case, was the Commission's determination that the separations adjustments should be based on data obtained from the end of the test period. Again, the closest time period for which separations data is readily available is the average data for July, August, and September 1987. This new data revealed that the combined intrastate investment allowed in the September 1, 1988 Order and the interstate investment included in GTE South's 1988 access tariff filing with the FCC, exceeded 100 percent of the total investment in COE Category 4.23.¹⁶ At the rehearing, GTE South's witness did not believe this analysis was valid because of the difference in time periods and because its actual, as opposed to projected, interstate percentage fell sharply in mid-1988. GTE South's position is that because the FCC

¹⁶ Transcript, Volume 1, January 23, 1989, page 156.

uses projected information in determining interstate revenue requirements, and requires adjustments if actual results differ materially from projected, that double recovery of costs will not occur.

The change in the interstate percentage was not a part of the record until the rehearing. Support data was then requested and it appears that the change occurred primarily because of a sharp drop in interstate usage from about 54 to 31 percent. However, given the late filing of this information, it is impossible to substantiate this adjustment and it is unknown whether or not the FCC has actually required GTE South to provide refunds or reduce access charges as a result of this change. The Commission is of the opinion that the level of intrastate COE Category 4.23 investment allowed in this case adequately reflects, or may even exceed, the proper intrastate amounts. Therefore, GTE South's request for amortization is unwarranted and should be denied. Although there is evidence to support a further downward adjustment of this investment level, the Commission is not requiring such an adjustment at this time because of the uncertainty in the drop in the interstate percentage, and the evidence in this case which indicates that this change in separations procedures primarily affects interLATA access revenue requirements, not local service revenue requirements. Therefore, as discussed later in this Order, GTE South is required to file an interLATA access study to reflect these changes.

Consistent with our prior treatment and using the third quarter investment level, the Commission finds that the

appropriate reduction to gross investment is \$308,177, an increase of \$8,633, and the appropriate reduction to net investment is \$197,927,¹⁷ a reduction of \$26,151. This results in a reduction to capitalization of \$26,000. Applying the expense and depreciation factors to the revised level of gross investment result in a revised pro forma level of intrastate expense of \$(10,364) and intrastate depreciation expense of \$(11,794). This results in a combined increase of \$620. The Commission is of the opinion that its September 1, 1988 Order should be modified to decrease the revenue requirement for COE Category 4.23 \$3,964.¹⁸

Interexchange Access Revenue

In the initial phase of this proceeding, GTE South reported adjusted revenues from interexchange access service including interexchange facility leases and billing and collection revenues of \$21,093,428.¹⁹ GTE South's adjustment included its proposed increase in access charges in Case No. 10171.²⁰ However, the Commission in its Order entered August 1, 1988, denied the proposed tariff primarily because of technical deficiencies with the filing. The Commission accordingly reduced the level of access charges included in the instant case by \$298,779 to reflect

¹⁷ $(\$308,177) \times .64225 = (\$197,927)$.

¹⁸ $[(\$26,000) \times 0.1077\%] + (\$620 \times 0.61215)] + 0.610558 = \$3,964$.

¹⁹ The September 1, 1988 Order contained a typographical error in the amount of \$100.

²⁰ Case No. 10171, The Tariff Application of GTE South Incorporated (Access Services).

the decision in Case No. 10171, which resulted in an adjusted level of access revenues of \$20,794,649.

In its petition for rehearing, GTE South indicated that the Commission had erroneously ignored the revenue effect of an access tariff filing that became effective on January 8, 1988 pursuant to changes ordered in Case No. 8838.²¹ In its rehearing brief, GTE South indicated that the \$298,779 amount reflected the combined effect of the January 8, 1988 tariff and the tariff proposed in Case No. 10171.²² GTE South estimated that the effect of the January 8, 1988 tariff was a reduction of \$949,811 annually in interexchange access revenues based on billed units from the test period, whereas the effect of the tariff proposed in Case No. 10171 would have increased revenues by \$1,248,610.²³ Therefore, GTE South's position is that the Commission should have reduced the proposed level of access revenues by \$1,248,610 in order to accurately reflect the rejection of the tariff proposed in Case No. 10171. This would have resulted in an adjusted level of access revenues of \$19,844,838.

On March 9, 1989, a joint motion was filed by AT&T and GTE South requesting the Commission to accept the terms of a stipula-

²¹ Case No. 8838, An Investigation of Toll and Access Charge Pricing and Toll Settlement Agreements for Telephone Utilities Pursuant to Changes to be Effective January 1, 1984.

²² Rehearing Brief of GTE South, page 7.

²³ This number is in error and should be \$1,248,590 = (\$21,093,428 - \$19,844,838).

tion signed by AT&T and GTE South. It was stipulated that, to the extent that the Commission recognizes a deficiency in GTE South's revenues in this action, AT&T and GTE South agreed that any deficiency should be recovered by an adjustment to rates for local service. On March 14, 1989, the AG-LFUCG filed a response in opposition to the joint motion.

The Commission concurs that its original adjustment may not have adequately reflected an appropriate going-forward level of access revenues, but it disagrees with GTE South's analysis of the correct level of access revenues that should be recognized in this case. In an Order dated May 31, 1985 in Phase II of Case No. 8838, the Commission decided that interLATA revenue requirements should be based on the 1984 revenue experience of the local exchange carriers. In the December 9, 1987 Order in that case, the Commission noted that no local exchange carrier had filed an analysis of interLATA cost of service, and therefore, the Commission froze interLATA revenue requirements at 1984 levels. In the case of GTE South, this was \$19,993,000. However, the Commission noted that as a result of the decision to also freeze non-traffic sensitive revenue requirements at 1984 levels and matters of rate structure that affect interLATA access compensation, some local exchange carriers would experience access service revenue sufficiencies and others would experience revenue deficiencies, when compared to 1984 interLATA revenues. In the case of GTE South, this resulted in a deficiency of approximately

\$770,000.²⁴ The Commission indicated that it would allow carriers with revenue deficiencies to file applications to increase switched access service rates equal to their revenue deficiencies, provided that analyses of interLATA costs of service were filed with the applications. The deficiency, as defined by the difference between the 1984 interLATA revenues and a price-out of test-period units applied to the January 8, 1988 tariffed rates, has been reduced to \$148,162²⁵ primarily as a result of the growth in access usage. As GTE South has not refiled its application to eliminate this deficiency, the Commission will impute interLATA access revenues to be \$19,993,000. This results in an additional revenue requirement of \$803,738.²⁶

However, the Commission is further of the opinion that the level of interLATA access revenue requirements authorized in Case No. 8838 is understated. Since 1984, GTE South has experienced significant increases in its intrastate costs. The recent intensification of its construction program, while allowing the provision of new services as a result of technological

²⁴ In the joint motion filed by AT&T and GTE South, GTE South indicated that this figure should be \$949,811. However, GTE South's analysis is flawed, inasmuch as \$949,811 represents the difference between the adjusted level of access revenues reflected in the September 1, 1988 Order and the effect of the January 8, 1988 tariff based on test-period units, whereas the \$770,000 figure is the difference between 1984 revenues and the effect of the January 8, 1988 tariff based on the 12 months units ending June 30, 1986.

²⁵ $\$19,993,000 - \$19,844,838 = \$148,162.$

²⁶ $(\$20,794,649 - \$19,993,000) \times .61215 + .610558 = \$803,738.$

improvements and possibly improving overall quality of service, has significantly increased its rate base and overall expense levels. Expense levels have also increased as a result of employee wage increases and other employee related expenses, such as increases in medical and dental insurance premiums. Not only has GTE South had significant increases in investments and expenses, but several accounting-related changes have increased its Kentucky intrastate revenue requirements. For example, changes in the Uniform System of Accounts, jurisdictional separations procedures, and allocation procedures for GTE South's general office expenses, all of which are reflected in this case, have increased GTE South's revenue requirements. Since 1984, GTE South has also had a represcription of its depreciation rates, which was also reflected in this case, as well as in its previous rate case. The instant case has also reflected the loss of interLATA revenues that resulted from interLATA interexchange lease terminations by absorbing this revenue loss in local service rates. GTE South has filed two general rate cases to increase local service and intraLATA toll rates to recover its higher revenue requirement; however, interLATA access rates have been insulated from these rate increases as a result of maintaining interLATA access revenue requirements at 1984 levels. In fact, interLATA access rates have actually decreased as a result of using a stable revenue requirement while interLATA usage has grown significantly. This increase in interLATA usage should have resulted in increased interLATA access revenue requirements, even in the absence of increases in overall revenue requirements.

Finally, the evidence provided in Case No. 10171²⁷ supports the Commission's opinion that interLATA access revenue requirements are higher than existing interLATA revenues.²⁸ Therefore, the Commission will require GTE South to file an interLATA cost-of-service study in order to ascertain a new interLATA access revenue requirement and to adjust access rates accordingly. This interLATA cost-of-service study should be filed within 60 days of the date of this Order. It should be revenue neutral to the extent that GTE South's total revenues should not exceed the total revenue requirement authorized in this case; therefore, if the new interLATA revenue requirement differs from the interLATA revenues authorized in this case, local service and intraLATA toll rates may be affected.

Directory Revenues

Another issue for which GTE South was granted rehearing is the imputation of directory revenues. In the September 1, 1988 Order, the Commission described two methods used to determine the adjustment found reasonable therein. The first method utilized the overall rate of return found reasonable in the Order. The second, yielding a similar result, imputed a retention ratio of 58

²⁷ Although the Commission indicated that the record did not contain sufficient evidence to make all necessary adjustments to restate revenue requirements, there was sufficient evidence to indicate that revenue requirements were higher than the established requirement.

²⁸ As discussed earlier, the existing revenues are \$19,844,718 while the revenue requirements proposed in Case No. 10171 were \$20,385,649.

percent, which is greater than the retention ratio contracted between GTE South and its affiliate, GTE Directory Corporation. In its September 1, 1988 Order, the Commission determined that GTE South should not be allowed to shield revenues from its regulated ratepayers' rates through contractual relationships with affiliates that receive such minimal review by GTE South. Accordingly, the Commission found that a portion of the profit derived by GTE Directory Corporation through its affiliated transactions with GTE South should be reflected by the local company for the purpose of establishing rates.

In its rehearing testimony, GTE South contested the Commission's comparison of the retention ratio in GTE South's Kentucky operating area with retention ratios for GTE operating companies in California and Florida. GTE South, using a simple regression analysis, attempted to demonstrate that the retention ratio of GTE operating companies was functionally related to population densities. GTE South contended that its analysis indicated that Kentucky's retention ratio should be compared with operating companies other than California and Florida. However, under cross-examination, GTE South admitted that its analysis did not consider other variables such as retail trade areas over 50,000, number of competitors, income level, or education levels that could be relevant in comparing the operating companies and the retention ratios. Further, GTE South indicated it had not estimated the profitability of the Kentucky directory operations nor had it compared the profitability of the directory operations in Kentucky, Florida, and California. Without consideration of

these variables and the relative profitability of the operating companies, GTE South has simply not provided information that would cause the Commission to alter its original opinion on the comparison of retention ratios. Furthermore, the Commission takes note that GTE South at no point contested either of the methodologies leading to its imputation of additional directory revenues to its Kentucky operations.

During the rehearing, attorneys for GTE South and the AG-LFUCG were given an opportunity to orally argue the issue of imputing directory revenue. GTE South contended that the provision of a directory is not a utility function and that by imputing revenues the Commission was attempting to regulate GTE Directory Corporation over which it has no jurisdiction.²⁹ The AG-LFUCG, on the other hand, argued that the provision of a directory to the local ratepayers is sufficiently connected to local service to allow Commission oversight of the contract between GTE South and GTE Directory Corporation.³⁰

The Commission, by imputing additional directory revenues to GTE South operations, is not seeking to regulate the profits of GTE Directory Corporation. The Commission's intent is to recognize the existing affiliated relationship between GTE South and GTE Directory Corporation and to ensure that the local ratepayer is not subject to unreasonable rates that may result from this relationship.

²⁹ Transcript, Volume II, January 24, 1989, pages 41-52.

³⁰ Ibid., pages 52-57.

It is clear from the record that GTE South has not been aggressive in pursuing more favorable terms with GTE Directory Corporation. A primary example of this is the length of time the current contract has been in effect without substantive change. Nowhere in the record is there evidence that this is an "arms length" relationship. There is no evidence that GTE South is even free from corporate restrictions to try to negotiate a more favorable directory publishing contract with a nonaffiliated company. Further, there is no evidence in the record that GTE South gains any economy-of-scale benefits from its relationship with GTE Directory Corporation.

Therefore, it is clear that GTE South accepts, without sufficient review or meaningful negotiation, the terms and conditions presented to it by GTE Directory Corporation. The Commission is of the opinion that GTE South is a captive customer of GTE Directory Corporation and ultimately GTE Corporation.

Given such a scenario, the Commission finds that there exists a genuine possibility that the return earned by an affiliate with a largely captive customer base is not representative of a truly competitive market, and therefore, an unreasonable contribution will be received by GTE Directories Corporation from the local ratepayers unless the Commission provides adequate oversight. The Commission has the authority as well as the mandate to protect the local ratepayer from unreasonable rates which might arise from any transaction whether or not the transaction is with an affiliated company.

Therefore, after a review of the record, the Commission reaffirms its September 1, 1988 decision. The Commission is of the opinion that the provision of directories is related to the provision of utility service. Furthermore, the Commission will not relinquish its responsibility to ensure that the Kentucky ratepayer is protected from potential abuses arising from affiliated relationships. Until GTE South demonstrates that it is diligently pursuing least-cost alternatives which will benefit the Kentucky ratepayer instead of maintaining affiliated transactions which enrich shareholders at the expense of the ratepayer, the Commission will continue to scrutinize affiliated transactions and take the appropriate steps necessary to ensure reasonable rates for the Kentucky ratepayer.

Capital Structure

The Commission has been asked to reconsider its treatment of \$75 million of GTE South short-term debt. GTE South's witness recommended adjusting its capital structure to reflect the out-of-test-year sale of \$75 million in common stock used to reduce short-term debt by \$75 million. GTE South contends that by ignoring the \$75 million out-of-test-year equity issue, the Commission is not recognizing GTE's cost of capital under its current capital structure. Although GTE South's total capitalization would not change, common equity would increase from 48.98 percent to 54.41 percent and short-term debt would decrease from 5.78 percent to 0.35 percent. GTE South has maintained a short-term debt level below 0.5 percent only once (i.e. 1983)

since 1977.³¹ In 1983 the reduction of short-term debt was accomplished through the issuance of \$20 million in common stock in Case Nos. 8474,³² 8749³³ and 8917.³⁴ By 1984 GTE South had increased short-term debt to 7.3 percent of total capitalization.³⁵ The Commission would also like to note that GTE South in reaching its proposed recommendation has apparently ignored other known or at least highly probable changes that can affect capital structure, such as, a reduction in GTE South's equity upon the payout of a dividend and the continued use of short-term financing. The Commission, therefore, fails to see how the adjusted capital structure proposed by GTE South could be considered representative of its expected capital structure during the period in which the new rates would be in effect.

Therefore, the Commission is of the opinion and finds that the inclusion of the \$75 million out-of-test-year equity sale would not result in a representative capital structure. Further, the Commission is of the opinion and finds that it is GTE South's

³¹ Response to Order dated January 15, 1988, Item 1.

³² Case No. 8474, The Application of General Telephone Company of Kentucky for an Order Authorizing the Issuance and Sale of Securities.

³³ Case No. 8749, The Application of General Telephone Company of Kentucky for an Order Authorizing the Issuance and Sale of Securities.

³⁴ Case No. 8917, The Application of General Telephone Company of Kentucky for an Order Authorizing the Issuance and Sale of Securities.

³⁵ Response to Order dated January 15, 1988, Item 1.

end-of-test-year capital structure which will more closely reflect GTE South's actual future level of debt to equity ratio. The Commission concludes that its treatment of the \$75 million of GTE South's common equity should be maintained.

Interest Synchronization

As a result of the above changes to capital, intrastate capitalization has been increased by \$664,000. Consistent with the September 1, 1988 Order, this results in additional interest expense of \$29,941 and a reduction in revenue requirements of \$19,020 after consideration of the effect of income taxes.³⁶

Rate Design

In its Order of September 1, 1988 (pages 84-94), the Commission discussed in detail the numerous rate design changes proposed by GTE South. No questions were raised in the petition for rehearing regarding the Commission's decisions as to the appropriate rate design to be utilized by GTE South. Therefore, the rates have been adjusted for the additional revenue granted herein so as to maintain the rate and revenue relationships found reasonable. This results in an increase of 12 cents per month to the basic 1-party residential rate and 33 cents per month to the basic 1-party business rate with other local exchange rates adjusted according to the approved ratios. Revenue allocated to general exchange was distributed on a percentage basis to the applicable rates.

³⁶ $(\$29,941 \times (1 - .61215)) + .610558 = \$19,020.$

ORDERS

The Commission, after further consideration and being sufficiently advised, HEREBY ORDERS that:

1. The adjustment to COE maintenance expense reflected in the September 1, 1988 Order is reasonable and therefore shall be affirmed.

2. The depreciation expense for the test period was overstated as contended by the AG-LFUCG and GTE's revenue requirement shall be reduced accordingly.

3. No adjustment shall be made to toll revenue in the absence of appropriate matching changes to toll expense and toll investment.

4. The impact of the separations changes for COE Category 3 for administrative and general expenses is not known or measurable and thus the September 1, 1988 decision shall be affirmed.

5. Because it is appropriate to base the separations adjustment on third quarter 1987 data, the revenue requirement associated with COE Category 3 shall be increased and COE Category 4.23 shall be decreased accordingly.

6. The level of intrastate COE Category 4.23 investment adequately reflects the proper intrastate amounts; therefore, GTE's request for amortization shall be denied.

7. The going-forward level of interLATA access revenue as set out in the September 1, 1988 Order was inappropriate and, therefore, shall be adjusted to the level established in Case No. 8838 for the purpose of setting rates in this case.

8. GTE shall file within 60 days of the date of this Order an interLATA cost-of-service study for the purpose of establishing a new interLATA access revenue requirement and adjusting access rates.

9. As GTE South has presented no convincing evidence that the adjustment in the September 1, 1988 Order regarding directory revenues should be modified, the September 1, 1988 decision shall be affirmed.

10. The September 1, 1988 Order disallowing an out-of-test-period equity sale shall be affirmed, because such sale does not result in a representative capital structure.

11. The rates in Appendix A, attached hereto and incorporated herein, are fair, just, and reasonable, will produce the level of revenue granted herein, and shall be adopted.

12. The Commission's determination concerning GTE South's motion to limit the scope of rehearing is reflected in the sections of this Order pertaining to COE maintenance, access revenues, and toll revenues.

13. GTE South and AT&T's joint motion shall be granted to the extent that access rates are not being adjusted in this proceeding.

14. GTE South shall file within 30 days of the date of this Order its revised tariffs setting forth the rates granted herein.

15. All other provisions of the Commission's Order of September 1, 1988 not revised herein shall remain in full force and effect.

Done at Frankfort, Kentucky, this 3rd day of August, 1989.

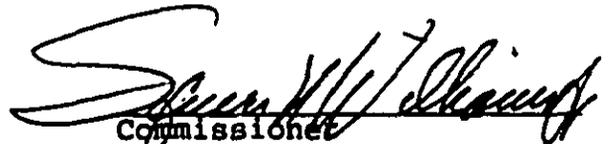
PUBLIC SERVICE COMMISSION


Chairman

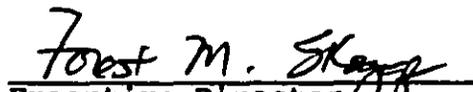

Vice Chairman

It is probably wise to adhere to the old adage, "If you can't beat 'em, join 'em," but I just can't do it. Again I reiterate, we should keep our rate-making fingers out of the yellow pages pie.

To that section of our Order which discusses, embraces, and appropriates directory revenues, I respectfully dissent. To the remaining portion of the Order I concur.


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 10117 DATED 8/03/89

The following rates and charges are prescribed for the customers in the area served by GTE South. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

S2. GENERAL REGULATIONS

S2.3 Establishment And Furnishing of Service

S2.3.17 Deleted

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates

S3.2.1 Flat Rate Service

- a. The rate group schedule is applied on the basis of the number of primary stations and PBX access lines within the local calling area, including the primary stations and PBX access lines of other telephone companies, within the same local calling area.

<u>CLASS AND GRADE OF SERVICE</u>	<u>RATE GROUP 1</u> <u>0 - 6,000</u>	<u>RATE GROUP 2</u> <u>6,001-12,000</u>	<u>RATE GROUP 3</u> <u>12,001-25,000</u>
<u>BUSINESS</u>			
One-Party Access Lines	\$32.31	\$35.53	\$39.02
Two-Party Access Lines	27.46	30.20	33.17
Four and Eight Party Access Lines*	22.62	24.87	27.31
PBX Access Line	47.00	51.68	56.76
Semipublic Service	58.75	64.60	70.95

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates

S3.2.1 Flat Rate Service (continued)

CLASS AND GRADE OF SERVICE	RATE GROUP 1 <u>0 - 6,000</u>	RATE GROUP 2 <u>6,001-12,000</u>	RATE GROUP 3 <u>12,001-25,000</u>
<u>RESIDENCE</u>			
One-Party Access Lines	\$11.75	\$12.92	\$14.19
Two-Party Access Lines	9.40	10.34	11.35
Four and Eight Party Access Lines (2)*	8.23	9.04	9.93

EXCHANGES

Albany
Bradfordville
Bryantsville
Burkesville
Columbia
Ewing
Flemingsburg
Garrison
Greensburg
Hillsboro
Lancaster
Lebanon
Liberty
Loretto
Monticello
Owingsville
Salt Lick
Scottsville
Sharpsburg
Tollesboro
Tompkinsville
Vanceburg

EXCHANGES

Campbellsville
Grayson
Hazard
Hustonville
Leatherwood
Leitchfield
Morehead
Olive Hill
Vicco

EXCHANGES

Berea
Burnside
Cecilia
Glasgow
Hodgenville
Nancy
Paint Lick
Somerset
South Hardin

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates

S3.2.1 Flat Rate Service (continued)

<u>CLASS AND GRADE OF SERVICE</u>	RATE GROUP 4 <u>25,001-50,000</u>	RATE GROUP 5 <u>50,001-150,000</u>
<u>BUSINESS</u>		
One-Party		
Access Lines	\$42.96	\$47.14
Two-Party		
Access Lines	36.52	40.07
Four and		
Eight Party		
Access Lines*	30.07	33.00
PBX Access		
Line	62.48	68.56
Semipublic		
Service	78.10	85.70
<u>RESIDENCE</u>		
One-Party		
Access Lines	\$15.62	\$17.14
Two-Party		
Access Lines	12.50	13.71
Four and		
Eight Party		
Access		
Lines (2)*	10.93	12.00
	<u>EXCHANGES</u>	<u>EXCHANGES</u>
	Ashland	Lexington
	Catlettsburg	Midway
	Elizabethtown	Nicholasville
	Greenup	Versailles
	Meads	Wilmore
	Russell	
	South Shore	

(2) Four-party residential service is not offered in Zone 1 areas; in Zone 2 and beyond it is limited to existing customers at present locations only.

* 4 and 8-party Zoned Exchange Service is an offering limited to existing customers at present locations only.

S3. BASIC LOCAL EXCHANGE SERVICE

S3.7 Rotary Line Service

S3.7.2 Rates

- a. The rate for each individual rotary line in use is the applicable monthly rate for individual line service, in addition to the following rates for each rotary number. The rate groupings are the same as those specified in Section S3.

<u>Rate Group</u>	<u>Business Monthly Rate*</u>	<u>Residence Monthly Rate*</u>
1	\$14.69	\$ 9.99
2	16.15	10.98
3	17.74	12.06
4	19.52	13.28
5	21.42	14.57

- Not applicable to rotary line service provided in connection with PBX lines or WATS Service.

S.4 SERVICE CHARGES

S4.7 Maintenance of Service Charge

The customer shall be responsible for payment of service charges shown below for each visit by the Telephone Company to the premises of the customer, or authorized user, where the difficulty or trouble report results from the use of equipment provided by the customer or authorized user. The charge does not include any further isolation work beyond the Telephone Company's specified demarcation point.

Payment for this service is provided under two options:

1. Under Option I, the customer pays on a monthly recurring charge basis per exchange access line per premises.

Monthly Rate

(a) Residence	\$.35
(b) Business	.35

2. Under Option II, the customer pays on a nonrecurring charge basis per visit.

(a) First 30 minutes, each premises

Residence	\$45.60
Business	45.60

S.4 SERVICE CHARGES

S4.7 Maintenance of Service Charge (continued)

(b) Each additional 30 minutes or fraction thereof,
each premises

Monthly Rate

Residence	\$18.95
Business	18.95

3. Customers may subscribe to Other Residence and Business Service (Option III) for further isolation services which are provided as detariffed and deregulated services.

**S9. FOREIGN EXCHANGE SERVICE AND
FOREIGN CENTRAL OFFICE SERVICE**

S9.2.2 Rates

a. The following charge applies to each circuit furnished in addition to the applicable zone rate for the service desired.

	<u>Monthly Rate</u>
(1) Each quarter mile or fraction thereof, circuit measurement, between the Central Office from which the customer would normally be served and the Foreign Central Office	\$3.93

b. DELETED

S12. ETSX AND CENTREX SERVICE

S12.1 ETSX Service

S12.1.4 Rates

	<u>Nonrecurring Charge</u>	<u>Monthly Rate</u>
b. ETSX Main Terminations within the Zone 1 and serving Central Offices area	***	\$29.50

** The ETSX Main Termination rates apply in addition to the Common Access Line Charge (CALC shown in Tariff P.S.C. Ky. No. 6.

Sl2. ETSX AND CENTREX SERVICE

Sl2.1 ETSX Service

Sl2.1.4 Rates (continued)

	<u>Nonrecurring Charge</u>	<u>Monthly Rate</u>
j. ETSX Service Options		
(1) Attendant Consoles, each	\$330.00	\$145.60
(2) Group Use Service, per system arranged	\$99.00	-
(3) Remote Access, (where available) - An authorized party (using Touch Call instrument) may dial directly into the system to gain access to facilities such as WATS, FX trunks, etc., each line	\$27.50	\$12.05
(4) Remote Access Line,	ETSX station rates and charges	
(5) Call Pickup Display - Facility for displaying the identity of station which is part of one or more pickup groups, each unit		
11 line display	\$44.00	\$ 9.35
24 line display	52.80	13.20
(6) Dial Access Paging - Allows attendant(s) and station users to activate signaling equipment with a code signal corresponding to the called code, each code	\$27.50	\$19.00
(7) Dictation Access and Control - Provides user with dial access to customer provided centralized dictation equipment* and has dial control of all normal dictation system features, each port	\$291.50	\$57.00

* Equipment must be compatible with Touch Call.

S12. ETSX AND CENTREX SERVICE

S12.1 ETSX Service

S12.1.4 Rates (continued)

	<u>Nonrecurring Charge</u>	<u>Monthly Rate</u>
(8) Meet Me Conference - Without attendant assistance, a station user may set up a conference in which, at a pre- determined time, all conferees meet in conference by dialing the conference number, each access code		
Six Party	\$110.00	\$50.65
Eleven Party	181.50	98.75
(9) Dial Up Conference - A station user may call a number of stations and/or trunks into conference without the aid of the attendant, each code		
Six Party	\$110.00	\$50.65
Eleven Party	181.50	98.75
(10) Speed Call- Station user can place outgoing calls to numbers by dialing an access code plus a one or two digit code		
Station, 30 Number List, each list	\$11.00	\$3.80
Station, 8 number, each line	11.00	3.20
Station, 30 Number, each line	11.00	6.35
(11) Recorder Intercept - Announcer - Incoming calls to unassigned stations will be intercepted by a recorded announcement, each recorder	\$55.00	\$57.00
(12) Multi-line Hunting - A group of lines arranged so that calls to a single number will cause the system to hunt across the lines in the group and seize the first idle line, each four line group	\$13.20	\$ 2.05

S12. ETSX AND CENTREX SERVICE

S12.1 ETSX Service

S12.1.4 Rates (continued)

	<u>Nonrecurring Charge</u>	<u>Monthly Rate</u>
(13) Shared Attendant Service - Arrangements in which two or more sub groups of the same system may share attendants, each system	\$110.00	\$10.15
(14) Dial Call Pickup - Allows a station user within a call pickup to answer any other ringing station within the pickup group,		
Each 11 line group	\$ 36.30	\$4.20
Each 24 line group	79.20	9.10
(15) Direct Call Pickup - Station user can answer calls ringing on any other station within the system by dialing a code, each system	\$ 22.00	\$12.65
(16) Most Economical Route Selection, (where available) - Allows the system to choose automatically the least cost facilities over which to route outgoing calls; upon encountering a busy, the system automatically queues outgoing calls on a priority basis, each group	\$275.00	\$158.25
(17) Music On Hold, (where available) - Provides centralized availability of customer provided audio source for system wide distribution to all "held call" conditions, each system	\$ 27.50	\$ 25.30
(18) Call Queueing-Outgoing, (where available) - System automatically queues outgoing calls on a priority basis, each group	\$165.00	\$114.00

S12. ETSX AND CENTREX SERVICE

S12.1 ETSX Service

S12.1.4 Rates (continued)

	<u>Nonrecurring Charge</u>	<u>Monthly Rate</u>
(19) Advanced Toll Restriction, (where available) - Denies selected station lines completion of dialed outgoing calls to selected office and area codes, each line	\$ 55.00	\$ 20.30
(20) Call Forwarding - Station user may temporarily reroute his calls to the attendant, another system station or either a local or toll number, each line	\$ 11.00	\$ 3.20
(21) Message Detail Recording - Provides a record of FX, WATS, Tie Trunks, CCSA and DDD calls (does not include processing), each system	\$165.00	\$284.90

S12.2 Centrex Service

S12.2.9 Rates

d. Schedule of Rates

	<u>For Network Access*</u>	<u>Monthly Rates For Inter- Communication</u>
(1) Centrex CU Main or Administrative Centrex lines		
First 200 lines, each	\$34.45	\$6.35
Next 400 lines, each	17.60	8.35
Next 400 lines, each	12.25	7.05
Over 1,000 lines, each	11.20	4.30

S12. ETSX AND CENTREX SERVICE

S12.2 Centrex Service

S12.2.9 Rates (continued)

	<u>For Network Access*</u>	<u>Monthly Rates For Inter- Communication</u>
(2) Centrex CO Main or Administrative Centrex lines		
First 200 lines, each	\$34.45	\$6.85
Next 400 lines, each	17.60	9.00
Next 400 lines, each	12.25	7.80
Over 1,000 lines, each	11.20	4.90
 Restricted lines, each		 \$3.60

Note: Centrex is offered only as a complete service. The Network Access and inter-communication portions of the above Centrex rates are not offered separately and neither is applicable in conjunction with customer-provided facilities.

- The Network Access monthly rate applies in addition to the Common Access Line Charge (CALC) shown in Tariff P.S.C. Ky. No. 6.

S12.2.10 Centrex Restricted Lines

	<u>Monthly Rate</u>
a. CU Restricted Key System Main Line	\$3.60
b. CU Restricted Station Line	3.60
c. Key Extension Key In Lieu	1.15

S13. MISCELLANEOUS SERVICE ARRANGEMENTS

S13.2 Extension Service Mileage Charges

S13.2.1 General

- d. Extension service lines between locations within the same exchange are subject to an extension line mileage charge of \$3.93 per month for each quarter-mile (1,320 feet) or fraction thereof circuit measurement (MI OX 1/4).
- f. DELETED

S13. MISCELLANEOUS SERVICE ARRANGEMENTS

S13.2 Extension Service Mileage Charges

S13.3.2 Rates and Charges

The following rates apply to any network access line (including PBX services) providing Touch Calling Service:

	<u>Monthly Rate</u>
Residence, per line*	\$1.45
Business, per line*	2.55

* On a two, four or eight-party line, rates shown are applicable per customer.

The above rates are in addition to service charges, monthly rates and any other applicable charges for the service with which the lines are used.

The Central Office Line Connection Charge does not apply when service is changed from rotary dial operation to touch calling operation.

S13.4 Smart CallSM Services

e. Toll Denial

S13.4.2 Provision of Service

a. The services are limited to those areas served by central offices arranged for **Smart CallSM Services**.

S13.4.3 Rates and Charges

a. Single Feature - One **Smart CallSM** feature per line

<u>Features</u>	<u>Monthly Rate</u>	
	<u>Residence</u>	<u>Business</u>
(1) Call Waiting, per line	\$3.70	\$5.50
(2) Call Forwarding, per line	2.00	3.50
(3) Three-Way Calling, per line	3.75	5.00
(4) 8-Number Speed Calling, per line	2.20	2.75

S13. MISCELLANEOUS SERVICE ARRANGEMENTS

S13.4 Smart CallSM Services

S13.4.3 Rates and Charges (continued)

	Monthly Rate	
	<u>Residence</u>	<u>Business</u>
(5) 30-Number Speed Calling, per line	\$3.50	\$5.00
(6) Toll Denial, per line	2.75	4.75

b. Package - Smart CallSM features on same line

	<u>Residence</u>	<u>Business</u>
(1) Call Waiting, Call Forwarding, Three-Way Calling, and 8-Number Speed Calling, per line	\$5.50	\$7.50
(2) Call Waiting and Call Forwarding, per line	4.25	6.25
(3) Call Waiting, Call Forwarding, and Toll Denial, per line	4.75	6.75

c. Service charges are not applicable when Smart CallSM Service features are provided at the same time as the business or residence individual line service is established.

d. When features are added or rearranged on an existing line, the Network Access Change charge as shown in Section 4 will apply. (Note: Central Office Line Connection Work charge does not apply when features are added or rearranged).

S20. PRIVATE LINE SERVICE AND CHANNELS

S20.2 Intraexchange Private Line Service

S20.2.1 Local Private Line Service

b. Rates (in addition to all applicable Service Charge)

	<u>Monthly Rate</u>
(1) Channels	
(a) Each quarter mile or fraction (airline measurement)	\$3.93

S20. PRIVATE LINE SERVICE AND CHANNELS

S20.4 1.544 Megabit Service

S20.4.4 Rates and Charges

The rates below are for 1.544 Mbps service furnished for private line intraexchange communications. The minimum period for which service is furnished and for which charges are applicable is 12 months.

	<u>Monthly</u>	<u>Installation</u>
a. 1.544 Access Line		
First Airline Mile	\$200.00	\$754.40
Each Additional 1/4 Airline Mile or Fraction Thereof	30.00	
b. 1.544 Special Transport		
Each Airline Mile or Fraction Thereof	85.00	
(1) A move charge equal to 1/2 of the 1.544 Access Line installation charge will apply for each customer location within a wire center where the 1.544 Access Line is moved.		
(2) The rates above include automatic failure protection on all equipment located on Company premises.		
(3) In addition to the above rates, and charges, the Network Access Establishment and Premises Visit Charge applies as specified in Section S4 of this tariff for all requests for the same customer made at one time.		

S113. DISCONTINUED MISCELLANEOUS SERVICE ARRANGEMENTS

S113.1 Custom Calling Services

Not offered for new installations, moves or rearrangements on or after the effective date of this tariff. Refer to Section S13 for rules, regulations and definitions.

c. Package Feature

Allows for two or more custom calling features on the same line except that rates shown below apply only for package combinations not included in Section S13.4.3.b.

S113. DISCONTINUED MISCELLANEOUS SERVICE ARRANGEMENTS

S113.1 Custom Calling Services (continued)

d. Rates

Package - two or more custom calling features on the same line.

	<u>Residence</u>	<u>Business</u>
(1) Call Forwarding, per line	\$1.30	\$3.10
(2) Call Waiting, per line	2.40	4.75
(3) Three-Way Calling, per line	2.55	3.90
(4) 8-Number Speed Calling, per line	1.30	2.25
(5) 30-Number Speed Calling, per line	1.70	3.10

S120. DISCONTINUED TIE LINE MILEAGE

S120.1 Tie Line Mileage Charges

These rates apply to existing customers only.

	<u>Monthly Rate</u>
Each quarter mile or fraction thereof, circuit measurement between switchboards	\$3.93

The minimum charge for each tie line is \$3.93 per month.

Note: 4-wire circuits are double the rate shown above.